

PROMOTING THE DEVELOPMENT AND REHABILITATION  
OF THE COASTWISE TRADE, TO ENCOURAGE THE CON-  
STRUCTION OF NEW VESSELS

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JUNE 26, 1956.—Committed to the Committee of the Whole House on the State  
of the Union and ordered to be printed

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Mr. BONNER, from the Committee on Merchant Marine and Fisheries,  
submitted the following

R E P O R T

[To accompany H. R. 11122]

The Committee on Merchant Marine and Fisheries, to whom was referred the bill (H. R. 11122) to promote the development and rehabilitation of the coastwise trade, to encourage the construction of new vessels, and for other purposes, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendments are as follows:

On page 1, line 7, after the word "directed", delete the rest of the line, and insert the following:

notwithstanding the provisions of section 11 of the Merchant Ship Sales Act of 1946, as amended, and section 510 (h) of the Merchant Marine Act, 1936, as amended, to bareboat charter to citizens of the United States tankers under his jurisdiction.

On page 1, delete lines 8 through 10.

On page 2, delete lines 1 through 5.

On page 2, line 14, between the words "operate" and "tankers", delete the word "the".

On page 2, line 21, delete "15 per centum per annum of", and insert in lieu thereof "\$150,000 per annum."

On page 2, delete lines 22 through 24.

On page 3, delete lines 1 and 2.

On page 3, line 3, after the "(f)" delete the rest of the line and insert the following:

As additional consideration for making of any charter under this Act, the charterer shall, on such terms and conditions

as the Secretary deems necessary to protect the interests of the United States, agree to the following:

On page 3, delete line 4.

On page 3, line 5, after the words "install on", delete the word "the".

On page 3, line 6, before the word "chartered" at the beginning of the line, insert the word "each".

On page 3, line 7, delete the word "having", and in lieu thereof insert the words "which have".

On page 3, line 10, at the end of the line, delete the period and insert the words "and by the Secretary of the Navy."

On page 3, line 11, after the "(2)", delete the rest of the line, and insert the following:

The charterer must agree that for each two tankers chartered to him under this Act the charterer will cause to be constructed in a United States shipyard or shipyards one dual purpose cargo-tankship of not less than thirty-two thousand tons deadweight, designed for the carriage of liquid cargo, equipped with an upper deck suitable for the carriage of cargo in containers, and having a speed of at least eighteen knots.

(3) For a period of ten years after its construction no cargo-tankship constructed pursuant to this Act shall be operated in any trade other than the United States domestic coastwise trade, except that with the approval of the Secretary, such vessel may be operated in any other trade if such operation is for the account of any department or agency of the United States.

On page 3, delete lines 12 through 17.

On page 3, line 18, delete the "(3)" and in lieu thereof insert "(4)".

On page 3, line 23, delete the "(4)" and in lieu thereof insert "(5)".

On page 4, line 3, delete the "(5)" and in lieu thereof insert "(6)".

On page 4, between lines 5 and 6, insert the following paragraph:

SEC. 2. Tankers shall be chartered under this Act only in pairs or multiples of two.

On page 4, line 6, after the word "Sec.", delete the "2." and in lieu thereof insert "3. (a)".

On page 4, between lines 9 and 10, insert the following paragraph:

(b) If the charter is terminated prior to expiration for any reason not the fault of the charterer, the United States shall pay to the charterer the depreciated cost of the deck installation required by section 1 (f) (1). For the purposes of this subsection, the cost of such deck installation shall be depreciated at the rate of 20 per centum per annum.

On page 4, delete lines 10 through 24.

On page 5, line 2, delete the "3", and insert in lieu thereof "1 (f) (2)".

On page 6, line 3, delete the "3", and insert in lieu thereof "1 (f) (2)".

On page 6, line 13, delete the words "to such owner".

On page 6, line 14, delete the words "such owner re-".

On page 6, line 15, delete the word "ceived", and between the words "credit" and "for", insert the words "has been made".

Page 6, line 25, delete the word "tradein" and insert in lieu thereof the word "trade-in".

Page 7, line 2, delete the word "income-" and insert in lieu thereof the words "income tax".

Page 7, line 3, delete the word "tax".

The purpose of this bill is to provide for the charter of tankers in the national defense reserve fleet to qualified applicants for operation in the coastwise trade and for the construction of new vessels also to be operated in the coastwise trade.

At present, tankers under the jurisdiction of the Secretary of Commerce are not permitted by law to be chartered for operation.

For several years, in fact since the end of World War II, this committee has been greatly concerned over the inability of the coastwise segment of our merchant marine to rehabilitate itself and once again assume its former importance in the Nation's transportation system. It has been equally disturbing that there has been no new construction of modern coastwise vessels which would be quickly available in the event of a national emergency.

It has been brought to the attention of the committee, from time to time, that one of the principal obstacles to the growth and expansion of the coastwise trade has been the lack of modern and efficient methods of loading and discharging cargo. The high cost of cargo handling and loss of time in port has discouraged any expansion of domestic shipping through the use of traditional vessels.

A study of the coastwise and intercoastal trades by the Maritime Administration contains certain recommendations and conclusions as to the manner in which some of the more serious problems of these trades might be partially solved.

One of the more important recommendations included in the report relates to the development and use of more improved and efficient methods of handling cargo such as is possible with the "roll on, roll off" or "lift on, lift off" type vessel.

One coastwise operator has recently commenced service between Newark, N. J., and Houston, Tex., using war-built T-2 tankers which have been partially converted and modified by the installation of an upper deck for the carriage of dry cargo in containers or trailer bodies. The tankers are still available for the carriage of petroleum, thus making them dual-purpose vessels. This "lift on, lift off" operation, in your committee's opinion, offers considerable hope that it will contribute substantially to the overdue revitalization of the coastwise trade if means are available for its further development.

Pan-Atlantic Steamship Co., who suggested the proposal embodied in this bill, has indicated that if the bill is enacted it will apply for the charter of tankers under the jurisdiction of the Secretary of Commerce and immediately convert them to combination cargo-tank ships so as to further expand and develop this new type of coastwise service, while new large vessels of advanced design are being constructed for operation in the same trade. The provisions of the bill would be available to any operator able to meet its requirements.

Your committee is greatly impressed with the desirability and feasibility of this new type service designed to overcome the conditions which have reduced our waterborne domestic ocean trades to a critically low level. Therefore, in the belief that Congress must take all reasonable means to encourage those with the imagination and willing-

ness to try something new and different in an effort to overcome the deficiencies in the American merchant marine, full hearings were held on this proposal.

Both the Department of Defense and the Department of Commerce supported the objectives of the bill.

The Department of Defense, represented by the Deputy Chief of Naval Operations (Logistics), wholeheartedly endorsed the concept of modified tankers capable of carrying both liquid cargoes and dry cargoes in containers. The Defense Department testified to the great value to the national defense of vessels in operation as contrasted to vessels in laid-up status, and commented on the deficiencies of tankers in the American merchant marine which would be partially overcome by the new vessels required to be constructed under the terms of the bill.

The Maritime Administration proposed amendments which would have broadened the authority of the bill to cover the charter of dry-cargo vessels, as well as tankers; to permit any type of alteration which the Secretary of Commerce might approve; to provide for operation in the intercoastal and noncontiguous, as well as the coastwise trades; and to provide for any approved type of new construction. While the committee seriously considered the amendments proposed by the Maritime Administrator, it felt that they were much too broad in their scope to be acted upon favorably without time for full study by the domestic shipping industry, and by the committee, and thorough hearings held thereon. It is hoped that the industry and the Maritime Administration will continue to give careful attention to the overall domestic shipping problem, with a view to presenting comprehensive legislation in the next Congress.

The bill, as introduced—

(1) Authorized and directed the Secretary of Commerce to charter 17 named T2-SE-A2 tankers, and 3 named T2-SE-A1 tankers to applicants possessing qualifications necessary to enable them to operate the vessels in the United States domestic coastwise trade;

(2) Provided that each charter made under the authority of the bill would be for a period of 5 years;

(3) Provided the charter hire for each chartered tanker would be at the rate of 15 percent per annum of the statutory sales price of such tanker, computed in accordance with the provisions of the Merchant Ship Sales Act of 1946, depreciated to the date of charter;

(4) Provided for the charterer, at his own expense, to install on each chartered tanker an upper deck suitable for the carriage of cargo containers having an aggregate capacity of not less than 1,000 tons gross weight, in accordance with plans and specifications approved by the Secretary of Commerce, with a provision that if the charter should be terminated prior to expiration without fault of the charterer, or the vessel became a constructive or actual total loss, the United States would pay to the charterer the depreciated cost of such deck installation;

(5) Required that each applicant for a charter must agree that for each 2 tankers chartered to him the applicant would cause to be constructed in a United States shipyard or shipyards 1 dual-purpose cargo tankship of not less than 32,000 deadweight tons, designed for the carriage of liquid cargo, equipped with an upper deck suitable for the carriage of cargo in containers, and having a speed of at least 18



knots, such vessels to be restricted for a period of 10 years after construction to operate in the United States domestic coastwise trade;

(6) Authorized the charterer, or an affiliate under common ownership, to trade in to the United States two war-built dry-cargo vessels for an allowance of credit in an amount not less than the fair world market value, toward the construction of each new cargo tankship to be constructed by him.

The bill limited the time in which charters could be made thereunder to 2 years from date of enactment, in order to provide an incentive to accomplish its purposes and objectives without undue delay. Tankers chartered under the bill would be required to be placed in good operating condition, including class, by the Secretary of Commerce at the expense of the United States. The charterer, in turn, would be obligated to return the chartered tankers in good operating condition, including class, ordinary wear and tear excepted. It is also required that the dry-cargo vessels traded in must be in class as to hull and machinery, satisfactory to the Secretary of Commerce on the date of their physical delivery to the United States. The allowance for each 2 dry-cargo vessels traded in would be fixed on the date each 2 tanker charters are entered into. The charterer might use the trade-in vessels at an annual charter rate of 15 percent of the statutory sales price under section 3 (d) of the Merchant Ship Sales Act of 1946.

After full hearing and upon consideration of the bill, your committee has amended it in certain respects.

First of all, it was deemed unsound to specify individual tankers as being the only ones authorized for charter. There are at the present time some 35 war-built T-2 tankers in the national defense reserve fleet. Seventeen of these are of the T2-SE-A2 class, having speed of about 16½ knots. The remaining 18 are 14½-knot tankers of the T2-SE-A1 class. At the time hearings were held on the bill, military requirements indicated an immediate need for the 17 T2-SE-A2 vessels to help overcome a serious current shortage of tanker tonnage, which is expected to continue in varying degrees during the next 6 months. Therefore, by eliminating the limitation to certain named vessels, the Secretary of Commerce will be provided with greater flexibility in the selection of the tankers which can be chartered.

Secondly, the bill has been amended to substantially increase the amount of charter hire required to be paid to the Government by the charterer of the tankers. As amended, the rate of hire is fixed at \$150,000 per annum per vessel, which would be substantially higher than the charter hire provided for in the bill as introduced, and somewhat less than that recommended by the Maritime Administration. In this connection, your committee felt that in view of the overall purpose of the bill and the added obligations and restrictions contained therein, which are above and beyond those contained in ordinary charters, the bill as reported will result in substantial benefit to the Government. The additional considerations are:

(a) Five-year term of charter which, based on any recent comparable period, will undoubtedly be made up of deep valleys, as well as peaks of profitable employment;

(b) The restriction of the chartered vessels to the coastwise trade, except when operated in other trades for the account of a department or agency of the United States;

(c) The obligation of the charterer to install at his own expense the special cargo deck, estimated at around \$200,000 each;

(d) The obligation to construct costly new high-speed cargo tankships within the 5-year period; and

(e) Restriction of the new vessels to the domestic coastwise trade for a period of 10 years after their construction, except when operated in other trades for the account of a department or agency of the United States.

The committee amendments removed the obligation of the Government to pay the charterer cost less depreciation of the deck installation in the event the vessel should become a total or constructive total loss during the period of charter. This is properly a matter to be covered by insurance on the vessel and deck installation which will be required by the terms of the charter.

On the other hand the provision for payment to the charterer by the Government of the cost of the deck installation, less depreciation, in the event of termination of the charter prior to its expiration for any reason not the fault of the charterer, is entirely reasonable and has been retained.

Since the operation of the chartered vessels, as well as the newly constructed vessels, will be in the domestic trade, there will be no operating or construction subsidies involved.

As amended by your committee and hereby reported, it is believed that this bill, as to its terms and conditions, is advantageous to the United States, and its enactment will contribute materially to the redevelopment of the important coastwise trade and make available urgently needed, modern, oceangoing tanker and dry-cargo capacity.

The departmental reports are as follows:

DEPARTMENT OF THE NAVY,  
OFFICE OF THE JUDGE ADVOCATE GENERAL,  
Washington, D. C., June 8, 1956.

HON. HERBERT C. BONNER,

*Chairman, Committee on Merchant Marine and Fisheries,  
House of Representatives, Washington, D. C.*

MY DEAR MR. CHAIRMAN: Your request for comment on H. R. 11122, a bill to promote the development and rehabilitation of the coastwise trade, to encourage the construction of new vessels, and for other purposes, has been assigned to this Department for the preparation of a report thereon expressing the views of the Department of Defense.

H. R. 11122 would authorize and direct the Secretary of Commerce to bareboat charter to United States citizens 17 named T2-SE-A2 and 3 named T2-SE-A1 tankers now in the national defense reserve fleet. It is further provided that the tankers must be chartered in pairs or in multiples of 2 and that, for every 2 chartered, the charterer must agree to have constructed, in United States shipyards, 1 dual-purpose cargo tankship of not less than 32,000 tons deadweight. If all 20 vessels were chartered, therefore, the charterers would be obliged to contract for the construction of 10 new vessels. In addition, each charterer would be required to install, at his own expense, on each vessel chartered, an upper deck for the carriage of cargo containers.

The Department of Defense supports this bill in principle because it would result in a substantial amount of construction work for

private shipyards in the United States and would thereby provide a substantial addition to the mobilization readiness of these shipyards.

There are, however, some technical deficiencies apparent in the bill. Section 11 of the Merchant Ship Sales Act of 1946, as amended, (50 U. S. C. App. 1743) provides in part "\* \* \* Unless otherwise provided by law, all vessels placed in such reserve [national defense reserve fleet] shall be preserved and maintained by the Commission for the purpose of national defense. A vessel placed in such reserve shall in no case be used for any purpose whatsoever except that any such vessel may be used for account of any agency or department of the United States during any period in which vessels may be requisitioned under section 902 of the Merchant Marine Act, 1936, as amended (46 U. S. C. 1242), and that any such vessel may be used under bareboat charter entered into pursuant to authority vested in the Secretary of Commerce on July 1, 1950 or granted to the Secretary of Commerce after such date." This provision of law makes it evident that the intent of Congress, in creating the national defense reserve fleet, was to assure the availability of vessels in this fleet to the United States for purposes of national defense.

The foregoing is in part implemented by the memorandum of agreement between the Department of Defense and the Department of Commerce dated July 1, 1954, which states that

Ships of the MSTS operating nucleus fleet which are replaced or no longer required by MSTS will be placed in the national defense reserve fleet for preservation and would be available to MSTS for use in an emergency.

The national defense reserve fleet currently contains 35 T2 tankers but this number is subject to continuous change due to a combination of factors:

- (a) Tankers received from United States citizens under authority of section 510, Merchant Marine Act, 1936 (trade-in and build program);
- (b) Tankers placed in the reserve by MSTS; or
- (c) Tankers transferred to MSTS from the national reserve defense fleet.

In the light of current procedures, it is believed that the wording of the bill, insofar as it specifically names the tankers to be made available for charter may be too restrictive. The changing composition of the reserve as described above precludes practical implementation if the list of vessels to be available is confined to those named in the bill. The actual ships authorized for charter should be resolved by the Maritime Administration and the applicant with the approval of the Secretary of the Navy in each instance. Accordingly, it is recommended that the bill be amended to authorize (but not to direct) the Secretary of Commerce to charter T2 tankers to citizens of the United States, without naming vessels or specifying any particular categories of T2 tankers; and further, that provisions be included that the actual tankers chartered will be agreed upon by the Maritime Administration and the charterer subject to the determination of the Secretary of the Navy in each instance that removal of the vessel from the national defense reserve fleet will not adversely affect the national defense.

In addition, in order to preserve the concept of maintaining the national defense reserve fleet for national defense, a provision should be included in the bill that the vessels shall be made available to the Department of Defense when required to meet military logistic needs which cannot be met by commercial interests or to meet emergency requirements short of full mobilization. Such a provision would permit the Department of Defense to support private operation of these vessels as opposed to Government operation.

The legislation should also provide a requirement that the Department of the Navy approve plans for the construction of cargo decks or other proposed conversion to insure that such conversion would not adversely affect the national-defense characteristics of the vessels.

Lastly, the bill should be amended to permit the newly constructed ships to be employed in other than the domestic coastwise trade when operated for the account of any department or agency of the United States.

Subject to incorporation of the foregoing recommended changes to the bill, the Department of the Navy, on behalf of the Department of Defense, favors enactment of H. R. 11122.

This report has been coordinated within the Department of Defense in accordance with procedures prescribed by the Secretary of Defense.

There has been insufficient time to obtain advice from the Bureau of the Budget as to the relationship of this report to the program of the President.

For the Secretary of the Navy.

Sincerely yours,

W. R. SHEELEY,  
*Rear Admiral, USN,*  
*Assistant Judge Advocate General of the Navy.*

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COMPTROLLER GENERAL OF THE UNITED STATES,  
*Washington, D. C., June 11, 1956.*

HON. HERBERT C. BONNER,  
*Chairman, Committee on Merchant Marine and Fisheries,*  
*House of Representatives.*

DEAR MR. CHAIRMAN: Reference is made to your letter of May 10, 1956, enclosing a copy of H. R. 11122, entitled "A bill to promote the development and rehabilitation of the coastwise trade, to encourage the construction of new vessels, and for other purposes," and requesting our comments thereon.

H. R. 11122 would authorize the Secretary of Commerce to charter, in multiples of 2, 17 named T2-SE-A2 tankers and 3 named T2-SE-A1 tankers and would require the charterer to have constructed, in a United States shipyard, 1 new cargo-tankship for each 2 tankers chartered. All of the vessels named in the bill are war-built vessels. The bill would also authorize the charterer to trade in two war-built dry-cargo vessels in exchange for an allowance of credit to be applied upon the cost of each new cargo-tankship constructed. The bill would permit the owner of the trade-in vessel to charter it from the Government for any period of time until delivery of the new cargo-tankship.

We believe that naming by legislation the specific vessels to be chartered is generally not desirable. Apropos of this, it should be



noted that, at the present time, there are only 17 T2-SE-A2 and 18 T2-SE-A1 tankers in the reserve fleet. The bill would authorize the charter of all of the T2-SE-A2 tankers and three of the T2-SE-A1 tankers. The Secretary of Commerce, in a letter dated June 6, 1956, agreed to the permanent transfer of 10 of the T2-SE-A2 tankers to the custody of the Department of the Navy. Also, we have been informed by representatives of Maritime that the Department of the Navy has indicated an intention to request transfer of the remaining seven. In addition, legislation has been introduced for the sale of certain of the tankers named in the bill. We have reference to House Joint Resolution 632 and House Joint Resolution 633.

The actions contemplated by the bill in respect of charters and trade-in of vessels parallel similar actions authorized by the Merchant Marine Act, 1936, and by the Merchant Ship Sales Act of 1946. However, the terms and conditions under which these actions would be authorized in the bill differ in various respects from those specified in the above act.

Under the bill, the charter hire rate for any tanker chartered would be 15 percent per year of the tanker's statutory sales price computed as of the date of charter in accordance with the provisions of section 3 (d) of the Merchant Ship Sales Act of 1946, but without regard to the floor price fixed by that section. This differs from the charter provision of the 1946 act in that the statutory price on which the charter hire rate is based cannot be less than the floor price. The significance of the difference is evidenced by the fact that the statutory sales price of a T2-SE-A2 tanker, computed in accordance with the bill, would be approximately \$845,000, while the floor price would be approximately \$1,600,000. Stated another way, the proposed deletion of the last 2 sentences of section 3 (d) results in a charter hire of approximately \$127,000 per annum while section 3 (d) without such deletion would require charter hire of approximately \$240,000 per annum. Charters made under the terms of the Merchant Ship Sales Act of 1946, require that the charter hire agreements contain provisions for additional charter hire in accordance with section 709 (a) of the Merchant Marine Act, 1936. However, the bill does not require that such provisions for additional charter hire be included in the charter hire agreements.

H. R. 11122 would require the Government to bear the cost of breaking out and laying up and of placing each tanker chartered in good operating condition, including class. It has been the policy of the Administrator to require the charterers to bear such costs initially and to take such costs into account in the determination of additional charter hire. These costs could be substantial if major bulkhead and repair work is required to place a tanker in good operating condition, including class, since Maritime representatives have estimated that the cost per vessel for breaking out and laying up would be approximately \$200,000, and for major bulkhead and repair work, approximately \$750,000. If the charter hire is approximately \$127,000 per annum, and major bulkhead and repair work was involved, the charter hire over the 5-year period would not cover the Government's costs. However, the vessel would be returned to the reserve fleet in a considerably improved condition.

The bill would authorize the trade-in of two war-built dry-cargo vessels for each new cargo-tankship constructed. The allowance of

credit on each trade-in vessel would be an amount not less than the fair market value of a comparable vessel if sold for operation under foreign registry or flag. This formula constitutes a significant deviation from that provided in section 510 (d) of the 1936 act, which states that the allowance shall be the fair and reasonable value as determined by the Administrator, with consideration to be given to (1) the scrap value, (2) depreciated value, and (3) market value. In other words, the formula in the bill removes the administrative discretion to determine the fair and reasonable value of a trade-in vessel and requires the world market value to be considered a floor on the trade-in allowance. No ceiling is provided. The effect of the formula in the bill is clearly shown by a recent agreement for the trade-in of seven war-built dry-cargo vessels on which the trade-in value was determined to be \$950,000 per vessel while the foreign market value was reported to be approximately \$1,300,000. We believe that the trade-in allowance provisions of this bill should be the same as those of section 510 (d) of the 1936 act.

Section 1 (f) (2) of the bill provides that the undepreciated cost of the required deck installation shall be recovered by the charterer if the charter is terminated prior to the end of its 5-year term for any reason not the fault of the charterer, or if the vessel becomes a constructive or actual total loss. Such a requirement would appear equitable if the Government terminates the charter prior to its normal expiration and receives the benefit of the upper deck installation. However, we perceive no valid reason for requiring the Government to act as the charterer's insurer of the undepreciated cost of the deck in event of the total loss of the vessel.

Section 1 (f) (3) provides that the chartered vessels are restricted to coastwise trade unless, with approval of the Secretary of Commerce, it operates for the account of any department or agency of the United States in another trade. It is noted that no such exception is provided in section 3, respecting the new cargo-tankships to be constructed.

The declared purposes of the bill are to assist coastwise trade and promote construction of new vessels. This is a matter of national policy for consideration by the Congress. We believe, however, that insofar as may be compatible with the accomplishment of the purposes of the bill, the terms and conditions should be consistent with those specified in existing legislation authorizing the same types of activities.

Sincerely yours,

JOSEPH CAMPBELL,  
*Comptroller General of the United States.*

There are no changes in existing law.

